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SUBJECT: Tasmania Weathers Global Financial Crisis - So Far

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REF:

Summary

¶1. (SBU) Tasmanians told Consul General during his first official visit on December 1-3 that Tasmania has weathered the global financial crisis so far, but there are already signs that the state may not escape unscathed. Declining real estate sales have cut into state revenue and tighter credit has delayed the development of the controversial Gunns Ltd. pulp mill. Tasmanian Premier David Bartlett has an ambitious plan to transform his state's economy, but some wonder whether he can meet these goals as the slowdown in the rest of the Australian economy trickles down to Tasmania. End Summary.

Tasmania Weathering the Storm - So Far

¶2. (SBU) During a series of meetings in Hobart on December 1-3, political and business leaders told Consul General that the global financial crisis has not yet landed in Tasmania, but there are signs that the economy may soon slow. According to Tasmania's Premier, David Bartlett (Labor), transactions in the state's real estate market have dropped off. While average home prices have not yet declined, fewer real estate transactions mean fewer taxes, and the Premier noted that this has already begun to hurt state revenue. Bartlett believes that this may be a leading indicator of future economic challenges in the state.

¶3. (SBU) Tight credit and sagging share prices have delayed the construction of Tasmania's environmentally controversial new pulp mill. The market value of Gunns Ltd, which is seeking A\$1 billion (US \$634 million) of capital to fund the pulp mill, has declined in recent weeks to approximately A\$580 million (US \$368 million). According to Gary Bailey, the editor at Tasmania's daily Mercury, financial trouble at Macquarie bank, one of the mill's main financiers, has also frustrated attempts to fund the new mill. (Note: Tasmania is a particularly environment-conscious state. Tasmania's Green party, which holds four of the state's 25 lower house seats, has opposed the mill in its current form. Both the Labor (14 seats) and Liberal (7 seats) parties have expressed support for the mill on the grounds that it will provide a significant economic boon for the state. End note.)

¶4. (SBU) Alan Campbell, General Manager for Tasmania's Department of Economic Development, indicated that the state has come a long way in the past decade. Unemployment has declined to 3.7 percent from 12 percent in the early 1990s. Increased tax revenues over this decade also permitted the state to pay off its general debt. Campbell admitted, however, that there is often a delay between the impact of economic troubles on the "mainland" and the subsequent effects in Tasmania. John Harris, Managing Director of Incat - a large scale catamaran and ferry builder, noted that business is still good, but he worries that tighter credit may prevent his

customers from obtaining necessary financing. Because Incat does business with a small pool of customers, one cancelled order may mean dozens of highly-skilled jobs lost, he said.

Transforming the Tasmanian Economy

15. (SBU) Premier David Bartlett stated that his top priority for the state is to improve educational standards. Better academic and vocational education, he said, would allow Tasmania to move from exporting raw resources such as timber and minerals, to producing more high value-added products such as walnuts, wine and other niche items. He also believes that the state can leverage its natural beauty to attract more adventure-seeking tourists as New Zealand has recently done. Tasmania, Bartlett said, can lead the way in Australia's attempt to develop a sustainable economy by continuing to carefully manage its extensive natural resources and by placing increasing emphasis on renewable energy. Noting several times that 14 percent of Australia's rain falls on 2 percent of its landmass in Tasmania, Bartlett described his long-term dream to develop the state into Australia's "food bowl." Improving water and power delivery throughout Tasmania, he said, remain key obstacles to realizing this vision.

Snapshot of Tasmania's Economy

16. (U) Tasmania's economy is dominated by tourism, forestry, mining and agri-business. Together these sectors employ over 28,500 of the state's 500,000 residents. The state's mining sector, tiny compared to Western Australia's, exports unprocessed ore directly in charter vessels to buyers in China. Manufacturing (sea vessels and surrounding industries) alone employs 23,000 people. U.S. companies such as Caterpillar, Simplot (frozen vegetables), and Johnson and

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Johnson operate in the state. Poppies are grown by local farmers and sold to Johnson and Johnson, GlaxoSmithKline, as well as a small Tasmanian company who process the poppies into morphine-based medicines.

17. (U) The state faces significant challenges in retaining young workers. "Island fever" leads many young workers to leave for Melbourne and Sydney. While some return, the state is still struggling to keep its youth on the island or to entice them to return. Many Tasmanians expressed excitement at crossing the 500,000 threshold because it marked a reversal of decades of population decline. The state still has, however, the oldest population in Australia. The words "sustainability" and "green" run through every business discussion on the island. 40 percent of the state's landmass is classified as either a national park or a world heritage site. Companies are regularly challenged and held accountable for being "part of solution, rather than being part of the problem."

Comment

18. (SBU) Tasmania's young Premier - Bartlett is only 40 years old - appeared energetic and only somewhat frustrated by his recent sacking of two state ministers suffering from depression and stress. He has an ambitious vision for the state's economy, but some Tasmanians noted that he may be trying to accomplish too much without enough prioritization.

19. (SBU) Comment continued: Talk of recession and fears of the global financial crisis are noticeably scarcer in Tasmania than in its northern neighbor, Victoria. This is probably largely because the Victorian capital Melbourne is one of the centers of Australia's globally-linked financial services industry and automobile sector. However, Tasmania cannot expect to remain immune from the effects of a global economic downturn, which despite the recent sharp drop of the Australian dollar, will reduce demand for Tasmanian products sold both domestically and in overseas markets. Although it is still too soon to tell just how profound an effect the global financial crisis will have in Tasmania, tight credit and sagging

share prices are already beginning to make their impact felt. End
Comment.

THURSTON